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SUBJECT: DEMARCHE REQUEST: U.S. OBJECTIVES FOR THE AD-HOC LIAISON COMMITTEE MEETING, SEPTEMBER 22

¶11. (U) This is an action request. Please see paragraph 3.

¶12. (SBU) Summary: The Department requests that action addressees inform appropriate government officials of USG support for the September 22 working-level meeting in New York City of the Ad Hoc Liaison Committee (AHLC), the principal external coordinating mechanism for donor assistance to the Palestinian Authority (PA). Norway has developed an agenda that provides an opportunity for substantive dialogue among subject matter experts from the donor community, the PA, and the Government of Israel (GOI) about ways to facilitate the effective coordination and delivery of donor assistance. In support of this approach, we should encourage participating countries to refrain from delivering prepared speeches. The U.S. will use this meeting of the AHLC to: emphasize the continuing need for donors to provide immediate budget support to the PA; mobilize support for Prime Minister Salam Fayyad's two-year plan to develop the institutions of a future state; and encourage increased access for goods and personnel into Gaza to support recovery efforts. We would support a later meeting of the AHLC at the ministerial-level in the context of the resumption of negotiations. End summary.

¶13. (U) Action request: The Department asks that Posts seek meetings with the appropriate host country officials to convey the objectives outlined below.

¶14. (SBU) Objectives:

-- Assure donors that we are making steady progress toward the resumption of negotiations and that continued support for the PA and the Palestinian economy is essential to create the conditions for success. The AHLC can support efforts to create the conditions for successful negotiations by helping to mobilize assistance in support of Palestinian economic and institutional development.

-- Emphasize that this meeting of the AHLC should be at the working level, not at the ministerial level, and that we encourage governments to send experts who are prepared to discuss concrete ways to meet the PA's financial needs and develop Palestinian institutions. We hope that delegations

will avoid delivering prepared remarks in favor of open discussion.

-- We would support a ministerial-level meeting of the AHLC at an appropriate time and place following the resumption of negotiations.

-- Share the primary U.S. goals for the AHLC: fill the PA's recurrent budget deficit in 2009 and coordinate continued support in 2010, particularly for the early months of the year with steady flows of assistance; mobilize support for Prime Minister Salam Fayyad's two-year plan as a blueprint for building the viable institutions of a future state; emphasize the unique roles that donors, the PA and the GOI have in preparing for Palestinian statehood; and convey our ongoing concern for the people of Gaza and our support for increasing the scope of goods and equipment allowed into Gaza.

-- For the GOI: Emphasize our interest in having the GOI not politicize PM Fayyad's two-year plan through public criticisms. We do not see it as a unilateral declaration of statehood, but a mechanism to focus the PA's efforts on building the institutions of a future state. In addition, we encourage the GOI to announce concrete progress toward implementing the Serry plan for the recovery and relief of Gaza.

-- For Norway: As Senator Mitchell told Foreign Minister Stoere, we hope that with Norway's leadership, the AHLC can be held at the ministerial-level later in the year, linked to the resumption of negotiations.

-- For the PA: We are committed to mobilizing donor support for the PA, particularly in the Gulf. We also will find appropriate moments to build support for the PA's institutional reform program in our statements related to the political process, and will encourage other parties to do the same.

-- For Cairo: We need to ensure that the AHLC does not distract from our efforts to create the conditions for successful negotiations by becoming a venue for one-sided criticism of Israel.

15. (U) Reporting: Posts should report initial host country responses as soon as possible by email or cable. Please contact Andrew Lentz, Desk Officer for Palestinian Economic Affairs, by email at lentzan@state.gov if you have any questions or requests for additional background.

Background

16. (SBU) Participation: The U.S. will be represented at the AHLC in New York City by Tom Goldberger, Office Director of the Office of Israel and Palestinian Affairs. The delegation will be comprised of representatives from State, USAID, the office of the Special Envoy for Middle East Peace, and the Department of the Treasury. This meeting of the AHLC should provide subject matter experts from the donor community, the PA and the GOI with the opportunity to engage in substantive discussions about ways to facilitate the effective coordination and delivery of donor assistance.

17. (SBU) PA Budget Needs: According to the IMF, the PA requires \$1.49 billion in external financing to cover the gap between revenue and expenses in its 2009 recurrent budget (down from over \$1.7 billion in 2008). This figure includes \$300 million that the PA asked for at the Sharm al-Sheikh donors' conference to cover additional budget expenses related to the Gaza conflict. Against this need, the PA has received just over \$950 million in donor support through August, including \$200 million from the United States and \$200 million from Saudi Arabia. The PA reports that with donor financing to date, it will be able to pay September salaries in time for the end of Ramadan. The PA, however, still faces an anticipated end-of-year budget deficit of as much as \$400 million and will need additional donor financing

as early as October. The PA again will require substantial donor support in 2010 to meet an anticipated \$927 million deficit in the operating budget. Through reform and institutional development, the PA under Prime Minister Salam Fayyad is reducing the burden on donors, but donor financing still is necessary to ensure the PA's viability. Donors should come prepared to fulfill the PA's end-of-year budgetary needs.

18. (SBU) PM Fayyad's Two-Year Plan: On August 25, Prime Minister Salam Fayyad released a program for the new PA government that was sworn in on May 19 titled "Palestine: Ending the Occupation, Establishing the State." The plan is both a political document and an action plan for the PA government and its ministries to develop viable institutions of statehood by 2011. There has been no official response to the plan from the Government of Israel, although Finance Minister Yuval Steinitz publicly criticized the plan as a unilateral declaration of statehood. The plan, however, does not call for the creation of a state absent negotiations and commits the PA to "all of (the PLO's) bilateral and multilateral agreements," which encompass the Quartet principles of recognition of Israel, renunciation of violence, and acceptance of previous agreements negotiated by the PLO. Implementing the plan will be costly, requiring substantial assistance from the international community. The identified action items are not, however, costed-out. We should urge donors and the parties to consider concrete steps in support PM Fayyad's institution building efforts.

19. (SBU) Future meeting of the AHLC: Norway originally planned to hold this meeting of the AHLC at the ministerial level. We conveyed to Oslo our position that such a meeting would be far more effective after negotiations have begun. This sequencing would (1) keep the focus in UNGA on the launch of negotiations; (2) support negotiations and the PA; and (3) put donor support in the context of negotiations, thus increasing the chances of success for the AHLC to mobilize international and financial support for Palestinian reform and development. We are willing to work with Norway to organize a ministerial-level meeting that is linked to the resumption of negotiations at a venue and date to be determined.

CLINTON